

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2016

Docket No. ACR2016

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
QUESTION 1 OF CHAIRMAN'S INFORMATION REQUEST NO. 22

The United States Postal Service hereby provides its response to the above-listed question of Chairman's Information Request No. 22, issued on February 24, 2017. Each question is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. Annual Performance Plans must “[cover] each program activity set forth in the Postal Service budget....” 39 U.S.C. § 2803(a). The Postal Service previously noted that the United States budget lists the following Postal Service program activities: postal field operations, transportation, building occupancy, supplies and services, research and development, administrative and area operations, interest, service wide expenses, capital investments, and change in resources on order and inventory.¹ Please explain how the *FY 2017 Plan* covers each of these program activities.²

RESPONSE:

The following response is provided in order to further clarify planned 2017 expenses for program activities.

¹ Docket No. ACR2015, Responses of the United States Postal Service to Questions 1 and 2 of Chairman's Information Request No. 5, February 3, 2016, question 1. The same program activities are listed in the Postal Service's FY 2017 congressional budget submission. See United States Postal Service FY 2017 Budget: Congressional Submission, Workpapers, and Summary Tables SE-1, 2 and 6, February 25, 2016, at II-14.

² In a Chairman's Information Request response, the Postal Service compares mail volume, revenue, and expenses projections in its FY 2017 congressional budget submission to the FY 2017 Integrated Financial Plan. See Responses of the United States Postal Service to Questions 1-3, 4.a, 4.c, and 5-8 of Chairman's Information Request No. 10, February 7, 2017, question 1. However, the Postal Service does not discuss individual program activities.

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Program and Financing (in millions of dollars)

		2016	2017 est.
Obligations by program activity:			
	Reimbursable program:		
08.01	Postal field operations	48,376	49,098
08.02	Transportation	6,992	7,218
08.03	Building occupancy	1,964	2,015
08.04	Supplies and services	3,445	3,558
08.05	Research and development	29	31
08.06	Administration and area operations	14,203	11,064
08.07	Interest	197	181
08.08	Servicewide expenses	174	179
08.08	Subtotal	75,381	73,344
08.10	Capital investment	1,250	1,933
08.11	Changes in resources on order and inventory	223	-
09.00	Total new obligations	76,854	75,277

Reconciliation of Program and Financing obligations to the Integrated Financial Plan (IFP) expenses:

Subtotal	75,381	73,344
Depreciation	1,740	1,619
	77,121	74,963

Postal Field Operations

Postal Field Operations covers personnel and nonpersonnel expenses associated with collecting, transporting, and delivering the mail. The FY 2017 Integrated Financial Plan (IFP) projects total work hours of 1,157 million, a work hour reduction target of 1 million compared to FY 2016. The expected increase in package volumes and continuing growth in the delivery network result in growth in work hours. This growth is planned to be offset by the reduction of one delivery day in 2017, compared to 2016.

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Field operations expenses are expected to increase by \$0.7 billion in 2017, driven primarily by scheduled general wage increases, cost of living adjustments, higher health benefits costs, and inflationary increases in nonpersonnel expenses. These upward pressures are partially offset by a planned 1 million work hour reduction and continued workforce attrition trends.

Transportation

Transportation covers the transportation expenses procured by contract from air carriers, as well as trucking, rail, and shipping companies. A given contract is usually limited to transportation covering a geographic area or route structure under a set schedule of transportation services and rates.

Transportation costs are expected to grow in 2017 as savings from the Postal Service's efficiency improvement initiatives are offset by additional package growth, projected increases in fuel prices, and increases in highway transportation needs, necessary to facilitate service improvements.

Building Occupancy

Building occupancy covers expenses for renting and leasing facilities, fuel and utilities, communication services, and improvement of facility-related working conditions.

The largest planned expenses for this program activity are rent paid to the General Services Administration (GSA) and private lessors, as well as electricity,

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telecommunications and data networks, garbage and trash disposal, and heating.

These expenses are planned to increase moderately in line with inflationary increases.

Supplies & Services

Supplies & Services includes consulting and other miscellaneous professional services, Information Technology software licensing and maintenance fees, Priority Mail supplies, supplies, materials and other services for Postal-related merchandise, and cost of goods sold.

Research & Development

Research & Development covers the accrued costs for materials, equipment, and contract services relating to Postal Service research and development (R&D). R&D expenditures are incurred primarily for developmental efforts to improve mail processing technology, construction engineering, and field industrial engineering.

Administrative & Area Operations

Administrative & Area Operations covers personnel expenses for Headquarters and Area Office employees, as well as national-level personnel benefits such as workers' compensation, retiree health benefits and amortization of unfunded retirement liabilities, plus related nonpersonnel expenses.

In 2017, the decrease is driven largely by the change in the RHB and CSRS obligations pursuant to the provisions of the Postal Accountability and Enhancement Act

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(PAEA), Public Law 109-435, 39 U.S.C. § 3631 et seq. Actual 2016 workers' compensation costs include noncash expense for actuarial and discount rate changes, which are not included in the 2017 plan.

Interest

This item includes the note interest expense and interest on capital projects.

Servicewide Expenses

Servicewide Expenses covers nonpersonnel costs for miscellaneous items of expense, including indemnities and insurance claims and other miscellaneous non-operating activities.

Capital Investments

Capital Investments includes the repairs to Postal Service facilities, purchase of new automation equipment, purchase of vehicles, and other Information Technology-related spend. The increase in FY 2017 is due primarily to the increase in planned automation to improve customer service, and the processing of letters, flats, and packages, as well as Information Technology-related purchases to improve the computing and communications platforms.

Changes in Resources on Order and Inventory

Changes in Resources on Order and Inventory are the net inventory commitments made during the year minus the costs of inventory that has been expensed during the same period.